

# **PUBLIC DISCLOSURE**

**May 22, 2006**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Goldman Sachs Bank USA  
57485**

**756 East Winchester, Suite 302  
Salt Lake City, Utah 84107**

**Federal Deposit Insurance Corporation  
25 Jesse Street at Ecker Square  
San Francisco, CA 94105**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Goldman Sachs Bank USA** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 22, 2006**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

**INSTITUTION CRA RATING:** This institution is rated Satisfactory.

Goldman Sachs Bank USA's CRA performance evaluation depicts an overall Satisfactory practice of providing for the credit needs of its designated assessment area in a manner consistent with its product lines, resources, and present capabilities. In addition to the bank's direct involvement, Community Development contributions were provided by the bank's affiliate, Goldman Sachs Group, Inc. (CSG) during the assessment period.

- The bank has provided qualified community development funding for projects that have helped construct affordable housing, and that have revitalized low- or moderate-income geographies. The bank has also invested in discounted deposits to a local New Orleans bank as part of the National Katrina Hurricane Relief efforts. The amount of direct bank funding is sizeable relative to the bank's current asset size, minimal lending activity, and lack of profitability.
- Despite a staff of seven individuals on-site, the bank has directly contributed over 220 hours of qualified community development service hours, during 2005 and first quarter 2006, in various capacities (including serving as board members) of local non profit agencies that provide affordable housing, financial education for at risk youth, and medical services for low- and moderate- income individuals. In addition, a bank employee serves on a Hurricane Katrina Relief Task Force.
- In addition to its direct CRA activities, GSB affiliate GSG's Charitable Services Group, has provided funding of over \$4 million in grants and donations to 30 various agencies, associations, and humanitarian organizations in the Gulf areas affected by Hurricanes Katrina and Rita. These activities qualify for indirect CRA credit for GSB as they are not claimed by any other CRA reporting financial institution.
- In addition to the bank's direct community development service activities, employees of the GSG brokerage affiliate located in Salt Lake City, also contributed 250 of qualified community development services in the bank's assessment area.

## **DESCRIPTION OF INSTITUTION**

Goldman Sachs Bank USA (GSB) is a Utah chartered Industrial Bank (IB) that opened for business on July 6, 2004, and operates out of a single office in Murray, Utah. GSB was a wholly-owned subsidiary of Goldman Sachs Group, Inc. (GSG), a Delaware corporation, however in March 2006, approval was granted allowing the transfer of ownership to Goldman Sachs Bank USA Holdings LLC, as the new immediate parent of the bank. The bank was established to provide another financial resource to existing, high-net worth GSG customers by offering a means to leverage their investments, to obtain mortgage financing, and insured deposits vehicles. The bank has a small on-site staff, and has no walk-in traffic as virtually all bank customers are located outside of Utah. The bank's current lending activities include mortgage brokerage services offered to employees of the GSG, and non purpose securities based lending. Activity in these portfolios has been minimal to date. As of year-end 2005, total deposits consisted of a parental deposit, but during May 2006, the bank started testing a Bank Deposit Account (BDA) in which customers essentially sweep excess funds from a brokerage account into a Money Market Account. This product is currently being tested on corporate employees involving 35 accounts, totaling approximately \$3 million.

Since beginning operations the bank has encountered various setbacks, including a revision to its initial business plan that is awaiting approval as of the date of this examination. As a result, the bank has not yet generated any relevant loan or deposit growth. As of December 31, 2005, the bank reported total assets of \$22,655,000 (78 percent securities), total deposits of \$513,000, and total equity capital of \$21,253,000. The loan portfolio consists of one loan, totaling \$256,000 that consists of a non-purpose, security based commercial loan. The bank has thus far brokered 11 loans under the brokerage referral test program.

While the bank intends to develop a CAR Strategic Plan in the future, the changes in the business plan and resulting delayed growth, required the bank be initially analyzed under the Small Bank test, which is the exam criteria for a bank of its asset size. However, because Small Bank procedures measure the bank's lending volume and patterns to assess the bank's overall CRA performance, the bank's lack of lending at this time precludes meaningful analysis using Small Bank procedures. Therefore, to meet its CRA responsibilities for this initial examination, the bank was appropriately analyzed based on its qualified Community Development Activities during the assessment period.

## **DESCRIPTION OF THE ASSESSMENT AREA**

### **SALT LAKE COUNTY**

GSB has designated its assessment area to be all of Salt Lake County which is part of MSA #41620.

The following table shows Salt Lake County key demographics:

<b>SALT LAKE COUNTY DEMOGRAPHICS</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	193	2%	22%	47%	29%
Population by Geography	898,387	1%	23%	49%	27%
Owner-Occupied Housing by Geography	203,690	nom	17%	52%	31%
Business by Geography	101,614	9%	23%	40%	28%
Family Distribution by Tract Income Level	215,864	nom	22%	50%	28%
Distribution of Low-and Moderate- Income Families throughout AA Geographies	79,691	2%	36%	49%	13%
Median Family Income HUD Adjusted Median Family Income for 2005 Households Below Poverty Level	54,586 61,550 7.58	Median Housing Value Unemployment Rate (US Census)		170,522 2.35%	

Source: 2000 US Census and 2005 HUD updated MFI

According to the Salt Lake County Economic Development Demographics and Economics, this county is the most heavily populated with a 2000 population of 902,777. Salt Lake County contains 38 percent of the states population and offers 47 percent of the total employment for the state. Total employment for the county was approximately 482,260 during 2002 with a corresponding unemployment rate of 6.3 percent. There are 16 incorporated cities in the county ranging in size from nearly 182 thousand people to less than 400. According to data retrieved from the FDIC's RECON data website, total unemployment in the Salt Lake City area has grown at an average annual rate of 0.7 percent, while the nation's employment rate has grown at an average of 0.3 percent.

The availability of affordable housing in the county remains an issue. The supply of safe and clean single-family homes that sell for less than \$100 thousand is almost nonexistent, with the average home selling for \$145,600 in Salt Lake City in 2000. Rental rates for a one-bedroom averaged \$400 to \$550 per month, while two-bedroom apartments rented for \$600 to \$800 per month. As reported in the Salt Lake County's 1998 Moderate-Income Housing Plan, approximately 78 thousand households in the county now pay or may soon be paying over 30 percent of their income for housing.

As shown in the table, the largest majority of census tracts are designated as middle- and upper-income. According to the 2000 Census data, a majority of the population lives within these tracts. Over 24 percent of the assessment area's population resides in low- and moderate-income census tracts and approximately 36 percent of the families are considered as low- and moderate-income. Over 7 percent of the households are below poverty level.

According to information obtained from June 2005 Dun and Bradstreet data, over 103 thousand businesses are located in the assessment area, which includes 1,564 agri-businesses. Small businesses (businesses with gross annual revenues of \$1 million and less) accounted for

approximately 59 percent of the assessment area's total number of businesses. The majority of businesses operating in the assessment area are located in middle- and upper-income geographies.

According to June 2005 Dun and Bradstreet data, 36 percent of the assessment area's businesses are service industries. Retail trade makes up 11 percent; followed by finance, real estate, and insurance at 10 percent; and construction at 7 percent. Six other industry categories comprise the remaining 36 percent. Major employers in the MSA include the State of Utah; University of Utah; Granite, Jordan and Salt Lake City School Districts; Delta Airlines; Salt Lake County; NOVUS Services; Intermountain Health Care; LDS Hospital; Salt Lake City Parks; and the U.S. Post Office.

### **Economic Conditions**

Utah job growth is strong, ranking fourth nationwide in third quarter 2005. However, wage growth is increasing only modestly. Recent job growth was led by the business services and construction sectors, where reported annual wages are near the state average of \$32,100. Forecasts indicate that continued job gains in the higher-paying natural resources and information sectors could boost the state average wage.

Utah had the seventh fastest 2004 population growth nationwide and has ranked in the top ten for population growth for the last 14 years. Over this time, the growing Salt Lake County population has been putting increasing pressure on the existing housing market. As a result, home prices have been escalating. This is reducing access to home purchase by low- and moderate-income families. Home prices continue to increase in Utah. Year-over-year home price appreciation increased from 9.5 percent in second quarter 2005 to 11.4 percent in third quarter 2005. Although still lagging the national rate of 12 percent, price gains for Utah placed it 22nd among the states, up from last place in 2003. The strongest residential sales activity is occurring in Salt Lake County where condominium sales were up 36 percent from year-ago levels.

In large part due to constrained supply of multi-family residential units, apartment vacancy levels are declining and rents are increasing. The total number of multi-family units in the planning and bidding phases is 6.5 percent of inventory, the eighth highest in the country. However, available units continue to decline in proportion to those seeking rental housing. This "landlord's market" pushes the cost of housing out of reach for many low-income renters. According to 2000 Census data, 38 percent of households in Salt Lake County pay in excess of 30 percent of their income toward rent. The source of this information was the FDIC Division of Insurance and Research's Regional Economic Conditions reports.

### **OPPORTUNITIES WITHIN THE SALT LAKE COUNTY ASSESSMENT AREA:**

Six community contacts performed for other CRA evaluations were reviewed. These contacts were made with a variety of organizations to help determine the community development needs and opportunities available in the Utah assessment area. The individuals contacted all indicated a strong ongoing need for affordable housing. The contacts included representatives of a local and a statewide government housing agency, two statewide affordable housing organizations, and local affiliate of a national community services organization. The contacts also identified needs for housing rehabilitation, after school child care, affordable healthcare, drug/alcohol rehabilitation programs, financial literacy training and counseling, business development, and small business financing.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

As previously stated the bank is designated as a Small Bank for CRA analysis purposes, which ordinarily requires the bank to be analyzed based on its lending patterns in its designated assessment area. However, the fact that the bank has yet to book any meaningful loan or deposit volume precludes GSB from reasonably being examined under the Small Bank Test.

Therefore, GSB was examined under the Community Development Test, which assesses the bank's record of helping to meet community credit needs through Community Development Lending, Qualified Investments, and Community Development Services.

## COMMUNITY DEVELOPMENT ACTIVITIES

This evaluation covers the period from January 1, 2005 through March, 2006. Qualifying activities include both direct investment, donations, and service hours by GSB, and indirect donations and service hours performed by affiliate (GSG) that are not accounted for in any other institution's CRA evaluation. The following findings confirm that the bank's CRA performance under the community development test for limited purpose institutions is considerable given its current asset size, limited resources and capacity.

## QUALIFIED INVESTMENTS/DONATIONS

GSB has funded an appropriate level of qualified community development investments and donations relative to the institution's current limited operations and capacity during this assessment period.

## DIRECT QUALIFIED INVESTMENTS/DONATIONS

The following reflects the bank's direct qualified investments and donations, and indirect qualified grants and donations:

Investments	Amount
Utah Housing Bonds (2 bonds of \$100,000)	200,000
Liberty Bank and Trust Deposit (Katrina Relief)	99,000
<b>Direct Qualified Investment Totals</b>	<b>299,000</b>
<b>Donations</b>	
Liberty Bank and Trust (Katrina Relief)	5,000
Title 1 School Arts Program	5,000
Salt Lake Neighborhood Housing Services	2,500
<b>Direct Donation Totals</b>	<b>12,500</b>
<b>Combined Totals</b>	<b>311,500*</b>

\* This amount represents 1.4% of total examination assets.

- **Utah Housing Corporation Bonds** - This agency is a self-supporting public agency created by the Utah Legislature to finance, develop, and preserve affordable housing for lower income individuals and families throughout Utah. During the assessment period the bank purchased two \$100,000 bonds.
- **Liberty Bank and Trust Katrina Investment Deposit (KID)** – Subsequent to a recent Katrina Outreach presentation sponsored by the FDIC encouraging all Utah Industrial Banks to provide monetary relief to affected Katrina areas, GSB purchased a discounted CD from Liberty Bank in New Orleans. This CD, purchased to yield up to 3 percent below market rates, is earmarked to finance businesses and individuals affected by the hurricane.

## **INDIRECT QUALIFIED DONATIONS**

The following affiliate actions are significant community development activities.

### **Hurricane Katrina Relief**

In the aftermath of Hurricane Katrina, GSB affiliate GSG provided \$1 million of immediate donations to relief efforts to the area in line with requests from the FDIC and other federal and local agencies. In addition, the organization established a matching gift program with its employees whereby GSB would match contributions of its employees on a dollar for dollar basis. The employees raised \$1.5 million which was matched by GSG for a total contribution hurricane relief contribution of \$4 million dollars. The collected funds were distributed to thirty different agencies, associations, and humanitarian organizations either located within the affected Gulf areas, or to national agencies that had established dedicated hurricane relief funds. Distribution of these funds ranged from \$50,000 up to \$500,000 and were provided to a wide range of entities including:

- American Red Cross (National Hurricane Fund/Louisiana/Mississippi Chapter)
- Bush-Clinton Katrina Fund
- Greater New Orleans Foundation
- Habitat for Humanity
- Houston Katrina Relief Fund
- Louisiana Disaster Recovery Foundation, Inc.
- Salvation Army

### **The Auburn Affordable Housing Project – Jersey City, NJ**

Across the Hudson River from the GSG corporate headquarters in lower Manhattan, is an affordable low income project in Jersey City, NJ that GSG designed, funded, constructed, and marketed. The city identified the site and provided the land to GSG, thus becoming the first public-private partnership of its kind in Jersey City. Construction began in October 2003 and the last unit closed in December 2005. The project, called Auburn, consists of 21 units of affordable housing the sales of which were offered to first time homebuyers making 64 percent of the median family income in the Jersey City area. All units were sold well below market ranging from \$85,000 to \$250,000 each. Included in the property is 3,500 square feet of commercial space that was gifted to the Auburn homeowners by GSB, valued at \$575,000. The average cost to GSG was \$191 per square foot to build, but the units sold for an average of \$87 per square foot. GSG's total contribution in the Auburn project was \$6 million.

Further, GSG partnered with the city of Jersey City to secure long-term tax reduction for the homeowners and with the Bank of New York, provided a discounted community development mortgage product with interest rates as low as 4.75 percent.

### **COMMUNITY DEVELOPMENT SERVICES**

GSB and its affiliates have provided a significant level of qualified community development services in the bank's assessment area during this assessment period.

### **DIRECT QUALIFIED SERVICES**

Despite a limited staff of seven individuals on-site, the bank has directly contributed over 220 hours of qualified community service hours, in various capacities including serving as board members of local non profit agencies that provide affordable housing, financial education for at risk youth, and medical services for low and moderate income individuals. In addition, a bank employee serves on Hurricane Katrina Relief Task Force.

### **INDIRECT QUALIFIED SERVICES**

In addition to the bank's direct contributions, employees of the bank's GSG brokerage affiliate located in Salt Lake, contributed another 250 of qualified community development services in the bank's assessment area during the evaluation period.

### **RESPONSE TO COMPLAINTS**

GSB has not received any consumer complaints relating to its CRA performance since beginning operations in 2004.

### **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS**

The CRA examination findings indicated no evidence of discriminatory practices or disparate treatment against individuals of any of the protected classes, or any other borrower or customer.